

**REPORT OF THE AUDIT OF THE
FORMER CLARK COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 29, 2006 Through December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER CLARK COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 Through December 31, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for former Clark County Sheriff for the period April 29, 2006 through December 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$13,051,722 for the districts for 2006 taxes, retaining commissions of \$394,072 to operate the Sheriff's office. The former Sheriff distributed taxes of \$12,551,636 to the districts for 2006 Taxes. Taxes of \$85,182 are due to the districts from the former Sheriff and refunds of \$379 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation of Duties
- The Former Sheriff's Tax Software Program Did Not Have Adequate Controls To Prevent Inaccurate Financial Reporting

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Henry Branham, Clark County Judge/Executive

Honorable Ray E. Caudill, Former Clark County Sheriff

Honorable Berl Perdue, Jr., Clark County Sheriff

Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the former Clark County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Clark County Sheriff's taxes charged, credited, and paid for the period April 29, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to



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provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff's Tax Software Program Did Not Have Adequate Controls To Prevent Inaccurate Financial Reporting

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

January 18, 2008

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,454,366	\$ 1,781,598	\$ 7,326,369	\$ 2,326,986
Tangible Personal Property	179,742	242,515	725,804	706,401
Franchise Taxes	80,534	98,594	357,343	
Increases Through Exonerations	24	29	118	1,091
Additional Billings	554	679	2,793	887
Bank Franchises	117,645			
Adjusted to Sheriff's Receipt	54,243	(6,124)	(1,417)	(638)
Gross Chargeable to Sheriff	1,887,108	2,117,291	8,411,010	3,034,727
<u>Credits</u>				
Exonerations	4,009	4,912	20,198	6,489
Discounts	25,129	28,696	115,024	42,772
Incoming Sheriff's Official Receipt	230,797	287,636	1,109,393	441,074
Returned Checks	382	468	1,923	611
Uncollected Bank Franchise	24,362			
County Rate Correction	54,539			
Total Credits	339,218	321,712	1,246,538	490,946
Taxes Collected	1,547,890	1,795,579	7,164,472	2,543,781
Less: Commissions *	66,073	76,312	143,289	108,398
Taxes Due	1,481,817	1,719,267	7,021,183	2,435,383
Taxes Paid	1,477,597	1,716,819	6,923,929	2,433,291
Refunds (Current and Prior Year)	3,076	1,775	13,889	2,471
Due Districts (Refund Due Sheriff)		**		
as of Completion of Fieldwork	\$ 1,144	\$ 673	\$ 83,365	\$ (379)

* And ** See Next Page

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period April 29, 2006 Through December 31, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,877,250
2% on	\$	7,164,472

** Special Taxing Districts:

Library District	\$	327
Health District		233
Extension District		<u>113</u>
Due Districts	\$	<u><u>673</u></u>

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 4, 2006 through December 31, 2006.

Note 4. Interest Income

The former Clark County Sheriff earned \$30,951 as interest income on 2006 taxes. As of December 31, 2006, the Sheriff owed \$2,079 in interest to the school district and \$1,777 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit any unrefundable payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be remitted to the Kentucky State Treasurer. For the 2006 taxes, the former Sheriff had \$9,788 in unrefundable payments and \$1,505 unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department. The unrefundable payments were refunds sent to taxpayers that were never cashed.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive
Honorable Ray E. Caudill, Former Clark County Sheriff
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Clark County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through December 31, 2006, and have issued our report thereon dated January 18, 2008. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Clark County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Clark County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Clark County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff's Tax Software Program Did Not Have Adequate Controls To Prevent Inaccurate Financial Reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clark County Sheriff's Settlement – 2006 Taxes for the period April 29, 2006 through December 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Clark County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 18, 2008

COMMENTS AND RECOMMENDATIONS

CLARK COUNTY
RAY E. CAUDILL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 29, 2006 Through December 31, 2006

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The bookkeeper performed the majority of the office duties without oversight. The bookkeeper was responsible for preparing daily deposits, posting the deposits to the receipts ledger, reconciling bank statements to the ledgers, and preparing monthly reports. The bookkeeper was also responsible for preparing expenditures, signing checks, preparing the distributions to taxing districts, and preparing monthly tax reports. The auditor noted improvements from the prior year. The auditor observed multiple signatures on deposit slips prepared by the bookkeeper and bank deposit receipts attached to deposit slips showing the amount deposited that day. The auditor noted that a sheriff's signature stamp was used by the bookkeeper. The signature stamp was maintained by the bookkeeper and there was limited, if any, oversight of the use of the stamp. We recommend the Sheriff consider the following controls to strengthen segregation of duties:

- Someone independent of daily deposit and bookkeeping functions should perform the monthly bank reconciliations to the ledgers.
- Someone independent of check preparation should review the monthly distribution reports and checks for accuracy.
- All checks should require dual signatures and the signature stamp should be properly secured to avoid abuse or fraud.

Sheriff's Response: None.

The Former Sheriff's Tax Software Program Did Not Have Adequate Controls To Prevent Inaccurate Financial Reporting

Our evaluation of the former Sheriff's computer technology revealed weaknesses in controls that resulted in inaccurate financial reporting. The weaknesses discovered included the following:

- Incorrect cell formulas that led to inaccurate reports
- Transactions could be back-date and altered
- Inadequate review of tax rate information
- Lack of adequate training in the use of the tax software

CLARK COUNTY

RAY E. CAUDILL, FORMER SHERIFF

COMMENTS AND RECOMMENDATIONS

For The Period April 29, 2006 Through December 31, 2006

INTERNAL CONTROL - MATERIAL WEAKNESSES (CONTINUED):

The Former Sheriff's Tax Software Program Did Not Have Adequate Controls To Prevent Inaccurate Financial Reporting

A county tax rate error was not discovered in the preparation of tax bills. The billing error resulted in numerous refunds due taxpayers from the former Sheriff. The former sheriff encountered difficulties preparing an accurate listing of refunds due taxpayers. The initial list obtained by the former Sheriff (prepared by the software vendor) indicated refunds due taxpayers in excess of \$119,000. The former Sheriff issued a check to fiscal court for \$119,637 for refunds to be issued to taxpayers. The former Sheriff's software vendor subsequently produced a corrected list, which indicated refunds due taxpayers of \$18,959. Upon review, the corrected refund list is the more accurate of the two and should be used to issue refunds. We recommend the former Sheriff obtain the \$119,637 paid to fiscal court for refunds on the initial list. Refunds should be issued to taxpayers based on the list prepared. The remainder of the \$119,637, after the refunds are made to the correct taxpayers, should then be paid to various taxing districts with the commissions thereon paid to the former Sheriff's fee account.

We recommend the Sheriff's office develop computer controls to ensure that correct formulas are used throughout the tax reporting process, to prevent the ability to back-date transactions without management approval, and ensure that tax bills mailed to taxpayers are computed using the correct tax rates. We further recommend the Sheriff's office ensure adequate training is provided for all tax program users.

Former Sheriff's Response: None.